

Message Text

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TAGS: EFIN, OECD

SUBJECT: TAXATION OF MULTINATIONAL ENTERPRISES

REF: (A) DAF/CFA/74.26

(B) DAF/CFA/75.4

(C) DAF/CFA/WP-6/75.4

1. SUMMARY: COMMITTEE ON FINANCIAL MARKETS WP6 SPECIAL WORKING GROUP ON TRANSFER PRICES (WG) HELD FIFTH MEETING ON 26-27 FEB 1975. MAJOR DISCUSSION CENTERED ON REVISED DRAFT REPORT PREPARED BY SECRETARIAT ON TREATMENT OF LOANS (REF A). U. S. DEL EARLIER HAD SUBMITTED WRITTEN COMMENTS ON DRAFT (REF B). CHANGES TO REF A INCORPORATED INTO NEW VERSION (REF C) WHICH CFA-WP6 CONSIDERED FEB 28, 1975. LATTER GROUP REQUESTED COUNTRIES NOT PARTICIPATING IN WG TO SUBMIT COMMENTS TO SECRETARIAT BY APRIL 22. NEXT WP6 WG MEETING MAY 20-21, 1975. NEXT WP6 MEETING ON MAY 22, 1975. END SUMMARY.

2. ALTHOUGH SECRETARIAT DRAFT OF REF A CLOSELY
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REFLECTED WG DISCUSSION HELD LAST NOVEMBER, NUMBER OF

ADDITIONAL CHANGES WERE MADE DURING CURRENT SESSION WHICH WERE INCORPORATED IN REF C. TWO MAJOR SUBSTANTIVE CHANGES RELATED TO USE OF SAFE HAVEN RULES AND EFFECT OF EXCHANGE CONTROLS. ON FIRST POINT, WORKING GROUP AGREED TO FOLLOW U. S. SUGGESTION THAT NEGATIVE LANGUAGE IN DRAFT REPORT ON USE OF SAFE HAVEN RULES BE CONSIDERABLY SOFTENED. ON SECOND POINT, WORKING GROUP AGREED THERE IS NO REASON FOR TREATING BLOCKED INTEREST BETWEEN RELATED FIRMS FOR TAX PURPOSES DIFFERENTLY FROM TREATMENT GIVEN BLOCKED INTEREST BETWEEN UNRELATED FIRMS. AT STRONG FRENCH URGING, FOOTNOTE WAS ADDED TO THIS SECTION INDICATING THAT EXCHANGE CONTROL REGULATIONS IN BORROWING COUNTRY SHOULD NOT DETERMINE TAX LIABILITY IN THAT COUNTRY.

3. WG HELD LIMITED DISCUSSION OF RIGHTS AND SERVICES, FOCUSING MAINLY ON U.S. RULES. LATTER DO NOT REQUIRE PROFIT ELEMENT TO BE INCLUDED IN CHARGE FOR SERVICES WHEN SERVICES ARE NOT INTEGRAL PART OF BUSINESS ACTIVITY OF EITHER COMPANY RENDERING SERVICES OR OF RECIPIENT OF SERVICES. U.S. DEL UNABLE TO GIVE ECONOMIC RATIONALE FOR THIS RULE. DISCUSSION ALSO CONSIDERED USE OF COST SHARING ARRANGEMENTS WITHIN RELATED GROUP.

4. WP6 REVIEW OF REF C ON FEB 28 RESULTED IN AGREEMENT THAT COUNTRIES NOT PARTICIPATING IN WG WOULD SUBMIT COMMENTS ON REF C TO SECRETARIAT BY APRIL 14, 1975. IF COMMENTS ARE NOT SUBSTANTIAL (E.G., DO NOT REQUIRE FURTHER CONSIDERATION BY WP6 OR ITS SPECIAL WG), PLAN IS TO CIRCULATE REF C TO FISCAL GROUP OF BIAC FOR ITS COMMENTS. AFTER THAT, REF C WOULD BE GIVEN FINAL REVIEW BY WG AT ITS NEXT MEETING ON MAY 20-21, AND BY WP6 ON MAY 22, 1975. TURNER

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